



CCRC

Actuaries, LLC

STATE OF WEST VIRGINIA



PUBLIC EMPLOYEES INSURANCE AGENCY

**Quarterly Report
December 31, 2005**

Fiscal Years 2006-2010

March 2006



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Ladies and Gentlemen:

I, Dave Bond, am a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries, and the Managing Partner in the firm of CCRC Actuaries, LLC ("CCRC Actuaries").

CCRC Actuaries has been retained by the Finance Board ("Board") of the West Virginia Public Employees Insurance Agency ("Agency") to assist it as provided under the West Virginia Public Employees Insurance Act ("Act") as amended by Senate Bill 702 in 1998. As provided under the Act, the Board has retained CCRC Actuaries to review the financial plan prepared and proposed by the Board for the fiscal year ending June 30, 2006 ("FY 2006") and to provide quarterly financial reports. In addition, the analysis is to be on an accrued and incurred reporting basis for a projection period of five years. Accordingly, CCRC Actuaries has additionally provided preliminary forecasts for the fiscal years ending June 30, 2007 ("FY 2007"), June 30, 2008 ("FY 2008"), June 30, 2009 ("FY 2009"), and June 30, 2010 ("FY 2010"). This opinion of plan adequacy is based on the projections through FY 2010, using updated future revenue and plan modifications provided by the Finance Board in the plan adopted in December 2005.

Under the Act, it is the Board's responsibility to prepare a proposed financial plan designed to generate revenues sufficient to meet all insurance program and administrative costs of the West Virginia Public Employees Insurance Agency. Under the Act, the Board must provide a financing plan in which the State Fund revenue costs are financed 80% by State employers and 20% by State employees in FY 2007 through FY 2010. This calculation is mandated by the PEIA enabling legislation to include all revenue contributed by State employers and State employees. It is also the Board's responsibility to review actual costs incurred, any revised cost estimates, expenditures, and other factors affecting the fiscal stability of the plan and to make any modifications to the plan necessary to insure that the total financial requirements of the Agency for the fiscal year are met. We have been requested to review the proposed financial plan, and as supported by our work, to render an opinion stating whether the plan may be reasonably expected to generate sufficient revenues to meet estimated insurance program and administrative costs of the Agency through FY 2010.

It should be noted that the projections in this report continue to include substantial anticipated savings from the enactment of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("Medicare Part D"). Under Medicare Part D, PEIA has elected the Retiree Drug Subsidy ("RDS") option and will receive 28% of Medicare drug expenditures between \$250 and \$5,000 for individual in 2006. CCRC Actuaries has projected the RDS to be \$8,000,000 on an accrued basis in FY 2006 from Medicare Part D. In future years, we have assumed that Medicare Part D will save PEIA

approximately \$20,000,000 in Fiscal Year 2007 and \$23,000,000 in Fiscal Year 2008 and increasing thereafter based on increasing Medicare enrollment and prescription drug inflation trends.

The Medicaid/PEIA Hospital Bill has been extended and is anticipated to result in PEIA hospital savings of approximately \$13,000,000 in Fiscal Year 2006. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in Fiscal Year 2009.

In preparing the plan, CCRC Actuaries utilized information concerning the plan's prior experience, covered individuals, plan revenues, plan benefits, plan administrative costs, and other expenses. This information was developed and provided by the Agency, the plan's third party administrators and other sources. In our review, we completely relied on the accuracy of this information and did not perform any due diligence on the information.

It should be noted that since the adoption of the new financial plan in early December, PEIA has experienced slightly favorable claim expense. In the circumstances, and subject to the conditions described herein, based on our review, we believe the Financial Plan approved by the Board for FY 2006 through FY 2010 may be reasonably expected to generate sufficient revenues, when combined with the existing surplus, to meet estimated insurance program and administrative costs of the Agency. In addition, we are forecasting that PEIA will meet the 80%/20% cost share requirement for State revenue based on the scheduled revenue increases of the current financial plan approved by the Finance Board in December 2005. It should be noted that this conclusion is based on significant revenue increases in employer and employee premiums through FY 2010 as approved by the Board in December 2005 for Fiscal Years 2006 through 2010.

The preparation of any estimate of future health costs requires consideration of a broad array of complex social and economic events. This report contemplates significant financial savings impact resulting from the implementation of Medicare Part D. Changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drug options, and the continuing evolution of the framework of the managed care options, as are contemplated in the Board's proposed plan, increase the level of uncertainty of such estimates. As such, the estimate of insurance program costs contains considerable uncertainty and variability and actual experience may not conform to the assumptions used.



Dave Bond, F.S.A., M.A.A.A.
Managing Partner



Bradley Paulis
Reviewing Partner

West Virginia Public Employees Insurance Agency

Report of Independent Actuary

December 31, 2005 Quarterly Report

OVERVIEW

This report analyzes revenues and expenses related to funding the life and health insurance benefits of active and retired employees of the State and various related agencies, together with their dependents. This report is intended for the sole use of the Finance Board, and any other use requires written approval by CCRC Actuaries.

This report was compiled, based upon claims data collected by PEIA's third party administrators through January 2006 for prescription drugs and medical claims. Enrollment data was provided at special request from PEIA as was information on administrative expenses, managed care capitations, and plan revenues. Revenue assumptions are based on premium rates, assumed interest income and significant general and special revenue allocations provided by the Governor, some which have not been approved by the legislature. In addition, some information became available through presentations made at the Finance Board meetings, which has been used in arriving at our conclusions.

The State of West Virginia Public Employees Insurance Agency Act establishes the actuarial reporting requirements for PEIA as the incurred basis for medical claims and capitations and on an accrued basis for administrative expenses and revenue. In addition, the Act was amended in Senate Bill 702 in 1998 to include reporting on a projection period of not to exceed five years and to include an accrual and incurred basis for revenues and expenses. At the request of the Finance Board, the reporting basis is based upon the division of employees and retirees into three funds: Active Local Employee Fund, Retired Employee Fund and State Employee Fund. The Active Local Fund represents local governmental agencies, county governmental agencies and other public entities. The Retiree Fund represents all state and local agency retirees and their survivors. The State Fund represents active state employees, colleges and university employees and county boards of education employees. The Active Local Fund and the State Fund are allocated administrative costs and retiree subsidy costs based on each fund's proportionate total revenue levels.

KEY ASSUMPTIONS

A. Enrollment Changes

These projections include the assumption that Preferred Provider Benefit and managed care enrollment will not change from February 2006 enrollment levels for the duration of these forecasts for active employees. However, the PEIA Finance Board has requested for the projection to assume retiree enrollment growth consistent with the experience of the plan. These projections assume that the Retiree Fund will annually have 1,000 additional retirees. While we have recently observed an increase of 1,067 retirees from June 2005 to February 2006, we note that from June 2003 through June 2005, the average annual increase in retirees was 1,287, slightly exceeding our current assumption.

In aggregate, February 2006 enrollment has increased by 683 coverages since the end of FY 2005. Preferred Provider Benefit enrollment has increased by 1,047 in total over the same period, while managed care enrollment continues to decline, with 364 less coverages. The most significant enrollment changes in FY 2006 include the previously mentioned increase of 1,067 total retiree coverages. In the State Fund, there continues to be a transfer of coverage from managed care to Preferred Provider Benefit coverage with overall active State enrollment declining by 644 coverages from the end of FY 2005 to February 2006. The following chart summarizes the current enrollment as of the selected monthly billing dates of June 2004, June 2005 and February 2006 for purposes of comparison:

PEIA Fund	Coverage	Preferred Provider Benefit			Managed Care		
		Jun-04	Jun-05	Feb-06	Jun-04	Jun-05	Feb-06
State Active	Single	17,915	18,783	18,895	4,015	3,476	3,374
	Children	4,688	4,948	4,822	899	708	674
	Family	30,490	30,993	30,747	5,093	4,382	4,134
	Total	53,093	54,724	54,464	10,007	8,566	8,182
Local Active	Single	3,438	3,549	3,717	386	383	361
	Children	576	592	592	175	155	160
	Family	4,490	4,397	4,493	111	103	116
	Total	8,504	8,538	8,802	672	641	637
Retirees	Medicare Single	15,513	15,714	15,966	-	-	-
	Medicare Family	8,748	9,153	9,369	-	-	-
	Medicare Total	24,261	24,867	25,335	-	-	-
	Non Medicare Single	2,515	2,696	2,918	187	183	193
	Non Medicare Family	3,703	3,997	4,350	183	175	189
	Non Medicare Total	6,218	6,693	7,268	370	358	382
	Retiree Total	30,479	31,560	32,603	370	358	382
Plan Total		92,076	94,822	95,869	11,049	9,565	9,201

B. Changes in Claim Backlog

The medical claim backlog has been relatively stable throughout Fiscal Year 2005 and Fiscal Year 2006.

Month	Average Backlog
July 2001	68,000
August 2001	72,000
September 2001	81,000
October 2001	74,000
November 2001	97,000
December 2001	113,000
January 2002	80,000
February 2002	70,000
March 2002	72,000
April 2002	63,000
May 2002	71,000
June 2002	73,000
July 2002	93,000
August 2002	95,000
September 2002	85,000
October 2002	74,000
November 2002	68,000
December 2002	79,000
January 2003	88,000
February 2003	84,000
March 2003	86,000
April 2003	78,000
May 2003	72,000
June 2003	65,000
July 2003	68,000
August 2003	69,000
September 2003	70,000
October 2003	79,000
November 2003	75,000
December 2003	83,000
January 2004	86,000
February 2004	82,000
March 2004	81,000
April 2004	82,000
May 2004	78,000
June 2004	73,000

[illegible]

C. Trend Analysis

CCRC Actuaries performed the detailed medical and prescription drugs trend analysis in the reports titled, “Medical Trend Report - September, 2005” and “Prescription Drugs Trend Report - September, 2005”. These reports include the detailed trend analysis of PEIA experience by medical and prescription drugs category and whether PEIA or Medicare was primary. Based on the analysis, we have reduced the FY 2006 and FY 2007 Non-Medicare medical claim trend to 8.5%. In addition, the Medicare medical claim trend has remained at 9.0% in FY 2006 and FY 2007. Based on PEIA’s favorable prescription drug experience, we have reduced our trend assumption for all prescription drugs coverage to 17.0% in FY 2006 and FY 2007.

The current projection assumes the trends on the following table:

Claim Type	FY 2006 Trend
Non-Medicare – Medical	8.5%
Non-Medicare – Drugs	17.0%
Medicare – Medical	9.0%
Medicare – Drugs	17.0%

In addition, we have assumed that trends will increase by 0.5% in each successive Fiscal Year beginning in FY 2008. At the Finance Board’s request the baseline trend assumptions have been established to reflect the most likely or expected trends. In order to provide information on the impact of varying trend assumptions, two alternative trend scenarios were developed. The Optimistic Scenario incorporates trend assumptions 2.0% below the Baseline Scenario and the Pessimistic Scenario incorporates trend assumptions 2.0% above the Baseline Scenario.

The following chart summarizes the trend results observed for the plan using data through January 2006. It is important to note that these trends **have not** been adjusted to reflect savings as a result of the expansion of the drug rebate program or the claim savings due to changes in provider reimbursement methodologies nor changes in the benefit structure. In developing the claim cost projection, we have reflected for benefit and reimbursement changes as an adjustment to the gross trend assumption.

PEIA Historical Trends

<u>Fiscal Year</u>	<u>Medical Medicare</u>	<u>Medical Non-Medicare</u>	<u>Drugs Medicare</u>	<u>Drugs Non-Medicare</u>	<u>Total</u>
1994	5%	3%	15%	20%	6%
1995	5%	9%	12%	18%	7%
1996	12%	12%	15%	31%	15%
1997	3%	10%	7%	19%	10%
1998	4%	-3%	8%	4%	0%
1999	4%	3%	15%	22%	8%
2000	9%	-6%	-10%	-15%	-6%
2001	6%	17%	30%	35%	20%
2002	3%	5%	19%	17%	8%
2003	3%	1%	13%	15%	6%
2004	12%	10%	13%	10%	10%
2005	6%	6%	13%	12%	8%

D. Enrollment, Claim, Expense and Revenue Assumptions

Using PEIA paid claim data through January 2006 for medical claims and for prescription drugs claims, average annualized incurred unit claim costs were developed for the State Fund, the Local Fund and the Retiree Fund for both self-funded and managed care coverages. CCRC Actuaries has developed the claim cost on an adjusted exposure basis using the respective expected claim cost for each coverage type. The adjusted exposure methodology weights the expected claim cost under each coverage type for single, member and children, and family coverages based on observed differences in health care cost. For example, under this methodology single coverage types are given a weight of 1.0 exposure, whereas member and children coverages are given a greater weighting based on historical expected health care cost relationships. The methodology results in different weighting for coverages whether PEIA is primary or secondary payor to Medicare. Based on this methodology, the projection of FY 2006 claims and expenses are summarized in the following chart. It should be noted that all of these numbers are on a per coverage basis.

Fiscal Year 2006 Projection			Revenue		Expenses		
Fund	Program	Coverages	Monthly Employer Premiums	Monthly Employee Premiums	Monthly Medical Costs	Monthly Drug Costs	Monthly Capitation Costs
State	PPB	54,475	\$ 561	\$ 108	\$ 359	\$ 128	
	<u>Managed Care</u>	<u>8,223</u>	\$ 536	\$ 127			\$ 494
	Total	62,698					
Local	PPB	8,709	\$ 630	\$ -	\$ 332	\$ 99	
	<u>Managed Care</u>	<u>638</u>	\$ 570	\$ -			\$ 429
	Total	9,347					
Retiree	PPB - Medicare	25,269			\$ 166	234	
	PPB – Non-Medicare	<u>7,231</u>			<u>\$ 398</u>	<u>180</u>	
	PPB - Total	32,500	\$ -	\$ 140	\$ 218	201	
	<u>Managed Care</u>	<u>363</u>	\$ -	\$ 433			\$ 958
	Total	32,863					

Projected plan revenues, administrative expenses, life insurance premiums, and the amount to be spent on wellness programs were provided by PEIA. Interest income is currently allocated to each fund based on average reserve levels for each fund.

The Finance Board approved the following plan assumptions for the forecasts found in the Appendix with respect to additional revenue in developing the Financial Plan at its meeting in December 2005.

Source	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009	Fiscal Year 2010
Additional State Employer Revenue	\$5,000,000	\$25,000,000	\$70,000,000	\$80,000,000
Additional Local Agency Revenue	\$2,000,000	\$4,000,000	\$10,000,000	\$10,000,000
Additional Employee Premiums	\$18,400,000	\$7,000,000	\$17,500,000	\$20,000,000
Additional Retiree Premiums	\$4,100,000	\$16,000,000	\$21,000,000	\$26,000,000
Medicare Part D Savings	\$20,000,000	\$23,000,000	\$27,000,000	\$32,000,000

Additional state revenues are based on the current commitment received from the Governor for Fiscal Year 2006. Subsequent to the adoption of the Financial Plan by the Finance Board, the Act was amended in Senate Bill No. 3003 in 2005 such that state employee and retiree premium increases were frozen until January 2006. These reductions in revenue were offset by a \$5,000,000 direct transfer provided by the Legislature. Future fiscal year state revenue increases will require legislative appropriation. Additional local agency revenue represents premium increases to be charged to local agencies. Additional employee premiums represent employee premiums paid by active employees participating in the State Fund. Additional retiree premiums represent premiums paid by retirees either directly or through Sick and Annual Leave credits.

In addition, PEIA management has assumed that the Retiree Premium Assistance Program will grow as a direct result from the required retiree premium increases in the Financial Plan. The program's cost is currently projected to grow from approximately \$2.9 million in FY 2006 to approximately \$5.9 million in FY 2010, based on the substantial increases in retiree premiums assumed in the financial plan.

E. Provider Reimbursement Changes

The projections assume significant savings for Medicare Part D and the Medicaid/PEIA Hospital Bill. We have assumed that Part D will save PEIA approximately \$8,000,000 in Fiscal Year 2006 and \$20,000,000 in Fiscal Year 2007 and increasing thereafter depending on Medicare enrollment and prescription drug inflation. The Medicaid/PEIA Hospital Bill has been extended and is anticipated to result in PEIA hospital savings of approximately \$13,000,000 in Fiscal Year 2006. These hospital savings are assumed to increase by the medical trend assumptions in future years through Fiscal Year 2008. We are assuming that the Bill will terminate at the end of Fiscal Year 2008 and hospital reimbursement will resume to previous levels which will increase plan expense, which will be somewhat offset by the assumed Direct Transfer of \$6,000,000 in Fiscal Year 2009.

FISCAL YEAR 2006 FORECAST

The financial forecast for FY 2006 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2006, projects accrued revenue of \$652,903,491 and incurred plan expenses of \$620,403,021 to produce a fiscal year surplus of \$32,500,470. This surplus was last projected to be \$26,533,605 in the Financial Plan Fiscal Years 2006-2010 Report dated December 2005. The principal reason for the \$6 million improved surplus for Fiscal Year 2006 is the combination of higher state and local employer premiums, investment income, and lower medical and drug overall claim costs. Projected revenue has increased by \$3.9 million and projected expenses have been reduced by \$2.1 million.

Under the Baseline Scenario, FY 2006 is projected to end with a reserve of \$201,083,750, which represents 29% of projected expenditures in FY 2007. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$206,405,266 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$195,790,772.

FISCAL YEAR 2007 FORECAST

The financial forecast for FY 2007 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2007, projects accrued revenue of \$684,302,831 and incurred plan expenses of \$684,034,516 to produce a fiscal year surplus of \$268,315. It was last projected to be a deficit of (\$7,457,845) in the Financial Plan Fiscal Years 2006-2010 Report dated December 2005.

Under the Baseline Scenario, FY 2007 is projected to end with a reserve of \$201,352,065, which represents 26% of projected expenditures in FY 2008. This projected reserve clearly meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$223,564,807 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$178,986,770.

FISCAL YEAR 2008 FORECAST

The financial forecast for FY 2008 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2008, projects accrued revenue of \$741,004,465 and incurred plan expenses of \$767,293,341 to produce a fiscal year deficit of (\$26,288,876). It was last projected to be a deficit of (\$34,369,648) in the Financial Plan Fiscal Years 2006-2010 Report dated December 2005.

Under the Baseline Scenario, FY 2008 is projected to end with a reserve of \$175,063,189, which represents 20% of projected expenditures in FY 2009. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$228,790,730 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$120,294,529.

FISCAL YEAR 2009 FORECAST

The financial forecast for FY 2009 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2009, projects accrued revenue of \$870,626,089 and incurred plan expenses of \$889,670,956 to produce a fiscal year deficit of (\$19,044,867). It was last projected to be a deficit of (\$29,607,412) in the Financial Plan Fiscal Years 2006-2010 Report dated December 2005.

Under the Baseline Scenario, FY 2009 is projected to end with a reserve of \$156,018,322, which represents 15% of projected expenditures in FY 2010. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$261,308,881 and under the Pessimistic Scenario, the ending reserve is expected to decrease to \$47,314,414.

FISCAL YEAR 2010 FORECAST

The financial forecast for FY 2010 under the Baseline scenario is presented in the Appendix. The Baseline forecast for FY 2010, projects accrued revenue of \$1,013,535,193 and incurred plan expenses of \$1,007,488,668 to produce a fiscal year surplus of \$6,046,525. It was last projected to be a deficit of (\$6,595,442) in the Financial Plan Fiscal Years 2006-2010 Report dated December 2005.

Under the Baseline Scenario, FY 2010 is projected to end with a reserve of \$162,064,847, which represents 14% of projected expenditures in FY 2011. This projected reserve meets the 10% of program expense requirement under the Baseline Scenario assumptions. Under the Optimistic Scenario, the ending reserve is expected to increase to \$342,957,449 and under the Pessimistic Scenario, the ending reserve is expected to decrease to (\$27,072,555).

LITIGATION

The forecasts presented in the attached tables do not contemplate any additional revenues or expenses to be generated from litigation activities.

SUMMARY

With projected changes to the Plan as adopted in the Financial Plan by the PEIA Finance Board, we are forecasting that the Plan will meet the 10% reserve target through the projection period ending with the Fiscal Year 2010 using the Baseline assumptions. These projections are based on significant Medicare Part D subsidies and significant revenue increases projected by PEIA and are contingent on legislative approval. These forecasts are based on assumptions including the estimated cost and savings of plan changes, expected trend levels and exposure levels. The continued enrollment changes of the managed care options, changes in physician, ambulatory and hospital provider reimbursement; possible changes in methodology of managed care premium calculation; and changes in the prescription drug program, can be expected to further exacerbate the difficulty of projecting future medical and drug claim levels and lags. These projections do not incorporate any anticipated effects of national or state health care reform, such as Medicare and Medicaid reform. On the national level, it would not be surprising to see significant changes in the Medicare Part D program, which will impact PEIA financial projections. As such, actual results deviating from those amounts projected in these pages should not be unexpected. With the legislatively mandated requirement of a five-year projection, it should be assumed that constant modifications would be required.

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2006

PERIOD 7/1/2005 - 6/30/2006

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 65,855,044	\$ -	\$ 366,455,644	\$ 432,310,688
Employer Premiums - MCO	4,362,985	-	52,925,958	57,288,943
Employee Premiums - PPB	-	54,686,993	70,642,522	125,329,515
Employee Premiums - MCO	-	1,885,640	12,576,974	14,462,614
Direct Transfers	-	-	5,000,000	5,000,000
Investment Income	940,190	-	8,047,198	8,987,388
Retiree Subsidy Revenue	-	3,512,932	-	3,512,932
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 71,599,746	\$ 60,085,565	\$ 521,218,180	\$ 652,903,491
<u>Program Expenses</u>				
Medical Claims	\$ 34,684,079	\$ 85,045,023	\$ 234,998,290	\$ 354,727,392
Prescription Drug Claims	10,365,534	78,468,848	83,906,963	172,741,345
Managed Care Capitations	3,281,373	4,174,251	48,731,264	56,186,888
Administration	2,696,685	2,307,768	19,486,153	24,490,606
Life Insurance	753,114	644,500	5,325,799	6,723,413
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	2,850,182	-	2,850,182
Director's Discretionary Fund	85,407	309,997	604,596	1,000,000
Total Expenses	\$ 52,070,812	\$ 173,800,569	\$ 394,531,640	\$ 620,403,021
Retiree Subsidy Allocations	\$ 13,734,344	\$ (113,715,004)	\$ 99,980,660	\$ -
Fiscal Year Results	\$ 5,794,590	\$ -	\$ 26,705,880	\$ 32,500,470
Beginning Plan Reserve	16,215,366	-	152,367,914	168,583,280
Ending Plan Reserve	\$ 22,009,956	\$ -	\$ 179,073,794	\$ 201,083,750

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 40,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 3,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 2,850,000	Non-Medicare	8.5%	17.0%
Additional Retiree Premiums	\$ 2,000,000	Medicare	9.0%	17.0%
Savings from Benefit Reductions	\$ -	Capitations		13.6%
Number of Net New Retirees	1,000	Administrative Expense		11.9%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2007

PERIOD 7/1/2006 - 6/30/2007

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 67,730,774	\$ -	\$ 370,824,644	\$ 438,555,418
Employer Premiums - MCO	4,487,255	-	53,556,958	58,044,213
Employee Premiums - PPB	-	63,426,433	86,261,727	149,688,160
Employee Premiums - MCO	-	2,184,693	15,357,769	17,542,462
Direct Transfers	-	-	-	-
Investment Income	1,204,738	-	9,321,945	10,526,683
Retiree Subsidy Revenue	-	3,934,484	-	3,934,484
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 73,864,294	\$ 69,545,610	\$ 540,892,927	\$ 684,302,831
<u>Program Expenses</u>				
Medical Claims	\$ 37,965,393	\$ 95,483,241	\$ 254,713,708	\$ 388,162,342
Prescription Drug Claims	12,232,757	83,884,082	98,071,625	194,188,464
Managed Care Capitations	3,609,510	4,591,676	53,604,390	61,805,576
Administration	2,831,519	2,423,157	20,460,461	25,715,137
Life Insurance	790,770	676,725	5,592,089	7,059,584
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	3,420,218	-	3,420,218
Director's Discretionary Fund	172,398	616,011	1,211,591	2,000,000
Total Expenses	\$ 57,806,967	\$ 191,095,110	\$ 435,132,439	\$ 684,034,516
Retiree Subsidy Allocations	\$ 14,604,412	\$ (121,549,500)	\$ 106,945,088	\$ -
Fiscal Year Results	\$ 1,452,915	\$ -	\$ (1,184,600)	\$ 268,315
Beginning Plan Reserve	22,009,956	-	179,073,794	201,083,750
Ending Plan Reserve	\$ 23,462,871	\$ -	\$ 177,889,194	\$ 201,352,065

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 5,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 2,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 18,400,000	Non-Medicare	8.5%	17.0%
Additional Retiree Premiums	\$ 4,100,000	Medicare	9.0%	17.0%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2008

PERIOD 7/1/2007 - 6/30/2008

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 71,482,235	\$ -	\$ 392,669,644	\$ 464,151,879
Employer Premiums - MCO	4,735,794	-	56,711,958	61,447,752
Employee Premiums - PPB	-	82,696,432	92,203,816	174,900,248
Employee Premiums - MCO	-	2,848,439	16,415,680	19,264,119
Direct Transfers	-	-	-	-
Investment Income	1,299,057	-	9,523,377	10,822,434
Retiree Subsidy Revenue	-	4,406,622	-	4,406,622
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 77,958,613	\$ 89,951,493	\$ 573,094,359	\$ 741,004,465
<u>Program Expenses</u>				
Medical Claims	\$ 41,296,484	\$ 107,337,767	\$ 277,062,337	\$ 425,696,588
Prescription Drug Claims	14,346,229	102,047,869	115,015,608	231,409,706
Managed Care Capitations	3,970,461	5,050,844	58,964,829	67,986,134
Administration	2,973,095	2,544,314	21,483,484	27,000,893
Life Insurance	830,308	710,561	5,871,694	7,412,563
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	4,104,262	-	4,104,262
Director's Discretionary Fund	169,357	637,296	1,193,347	2,000,000
Total Expenses	\$ 63,790,554	\$ 222,432,913	\$ 481,069,874	\$ 767,293,341
Retiree Subsidy Allocations	\$ 15,863,637	\$ (132,481,420)	\$ 116,617,783	\$ -
Fiscal Year Results	\$ (1,695,578)	\$ -	\$ (24,593,298)	\$ (26,288,876)
Beginning Plan Reserve	23,462,871	-	177,889,194	201,352,065
Ending Plan Reserve	\$ 21,767,293	\$ -	\$ 153,295,896	\$ 175,063,189

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 25,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 4,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 7,000,000	Non-Medicare	9.0%	17.5%
Additional Retiree Premiums	\$ 16,000,000	Medicare	9.5%	17.5%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2009

PERIOD 7/1/2008 - 6/30/2009

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
<u>Revenues</u>				
Employer Premiums - PPB	\$ 80,860,887	\$ -	\$ 453,835,644	\$ 534,696,531
Employer Premiums - MCO	5,357,142	-	65,545,958	70,903,100
Employee Premiums - PPB	-	108,133,845	107,059,039	215,192,884
Employee Premiums - MCO	-	3,724,618	19,060,457	22,785,075
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,249,422	-	8,852,249	10,101,671
Retiree Subsidy Revenue	-	4,935,417	-	4,935,417
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 87,908,978	\$ 116,793,880	\$ 665,923,231	\$ 870,626,089
<u>Program Expenses</u>				
Medical Claims	\$ 45,126,407	\$ 124,642,476	\$ 323,950,718	\$ 493,719,601
Prescription Drug Claims	16,896,606	124,065,253	135,462,311	276,424,170
Managed Care Capitations	4,367,507	5,555,928	64,861,312	74,784,747
Administration	3,121,750	2,671,530	22,557,658	28,350,938
Life Insurance	871,824	746,089	6,165,278	7,783,191
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	4,925,114	-	4,925,114
Director's Discretionary Fund	161,069	645,874	1,193,057	2,000,000
Total Expenses	\$ 70,749,783	\$ 263,252,264	\$ 555,668,909	\$ 889,670,956
Retiree Subsidy Allocations	\$ 17,079,407	\$ (146,458,384)	\$ 129,378,977	\$ -
Fiscal Year Results	\$ 79,788	\$ -	\$ (19,124,655)	\$ (19,044,867)
Beginning Plan Reserve	21,767,293	-	153,295,896	175,063,189
Ending Plan Reserve	\$ 21,847,081	\$ -	\$ 134,171,241	\$ 156,018,322

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 70,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 10,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 17,500,000	Non-Medicare	9.5%	18.0%
Additional Retiree Premiums	\$ 21,000,000	Medicare	10.0%	18.0%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%

APPENDIX - BASELINE SCENARIO

WEST VIRGINIA PUBLIC EMPLOYEES INSURANCE AGENCY FINANCIAL FORECAST FISCAL YEAR 2010

PERIOD 7/1/2009 - 6/30/2010

	Active Local Fund	Retirees Fund	State Fund	PEIA Total
Revenues				
Employer Premiums - PPB	\$ 90,239,539	\$ -	\$ 523,739,644	\$ 613,979,183
Employer Premiums - MCO	5,978,490	-	75,641,958	81,620,448
Employee Premiums - PPB	-	139,761,417	124,036,436	263,797,853
Employee Premiums - MCO	-	4,814,015	22,083,060	26,897,075
Direct Transfers	-	-	6,000,000	6,000,000
Investment Income	1,295,529	-	8,406,027	9,701,556
Retiree Subsidy Revenue	-	5,527,667	-	5,527,667
Administrative Fees	441,527	-	5,569,884	6,011,411
Total Revenue	\$ 97,955,085	\$ 150,103,099	\$ 765,477,009	\$ 1,013,535,193
Program Expenses				
Medical Claims	\$ 49,537,242	\$ 141,177,124	\$ 355,614,958	\$ 546,329,324
Prescription Drug Claims	19,984,884	151,155,628	160,221,442	331,361,954
Managed Care Capitations	4,804,258	6,111,521	71,347,444	82,263,223
Administration	3,277,837	2,805,107	23,685,541	29,768,485
Life Insurance	915,415	783,393	6,473,542	8,172,350
Wellness	204,620	-	1,478,575	1,683,195
Retiree Assistance Program	-	5,910,137	-	5,910,137
Director's Discretionary Fund	158,420	666,140	1,175,440	2,000,000
Total Expenses	\$ 78,882,676	\$ 308,609,050	\$ 619,996,942	\$ 1,007,488,668
Retiree Subsidy Allocations	\$ 17,982,264	\$ (158,505,951)	\$ 140,523,687	\$ -
Fiscal Year Results	\$ 1,090,145	\$ -	\$ 4,956,380	\$ 6,046,525
Beginning Plan Reserve	21,847,081	-	134,171,241	156,018,322
Ending Plan Reserve	\$ 22,937,226	\$ -	\$ 139,127,621	\$ 162,064,847

KEY ASSUMPTIONS

Additional State Employer Premiums	\$ 80,000,000	Claim and Other Expense Trends		
Additional Local Agency Revenue	\$ 10,000,000	<u>Eligibility</u>	<u>Medical</u>	<u>Drugs</u>
Additional State Employee Premiums	\$ 20,000,000	Non-Medicare	10.0%	18.5%
Additional Retiree Premiums	\$ 26,000,000	Medicare	10.5%	18.5%
Savings from Benefit Reductions	\$ -	Capitations		10.0%
Number of Net New Retirees	1,000	Administrative Expense		5.0%